

# **CITY OF UDALL, KANSAS**

**Financial Statements  
December 31, 2010**

**with  
Independent Auditors' Report**

CITY OF UDALL, KANSAS  
Financial Statements  
Year Ended December 31, 2010  
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**INDEPENDENT AUDITORS' REPORT**

The Mayor and City Council  
City of Udall, Kansas

We have audited the accompanying financial statements of the individual funds of the City of Udall, Kansas, as of and for the year ended December 31, 2010 as listed in the table of contents. These financial statements are the responsibility of the management of the City of Udall, Kansas. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the *Kansas Municipal Audit Guide* and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the City's policy is to prepare its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each of the various funds of the City of Udall, Kansas, as of December 31, 2010, and the revenues received and expenditures paid of such funds for the year then ended on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the City Council and management of the City of Udall, Kansas and for filing with the Kansas Department of Administration, Division of Accounts and Reports and should not be used for any other purpose.

February 28, 2011

*Peterson Peterson & Goss LC*

CITY OF UDALL, KANSAS  
Summary of Cash Receipts, Expenditures and Unencumbered Cash  
For the Year Ended December 31, 2010

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances	Current Year Ending Cash Balance
Governmental Type Funds:						
General	\$ 102,922	\$ 491,237	\$ 477,218	\$ 116,941	\$ 1,760	\$ 118,701
Special Revenue:						
Special Highway	17,468	23,287	18,600	22,155		22,155
Library	211	6,556	6,556	211	183	394
Equipment Reserve	44,443	-	11,815	32,628		32,628
Capital Improvement	55,900	30,000	-	85,900		85,900
Grant Programs	2,188	-	2,188	-		-
City Sales Tax	48,327	92,636	96,283	44,680		44,680
Payroll Clearing	-	292,242	292,165	77		77
Debt Service Fund:						
Bond and Interest	43,844	39,773	33,960	49,657		49,657
Proprietary Type Funds:						
Electric System	331,594	741,748	847,454	225,888	27,202	253,090
Electric Reserve	20,000	-	-	20,000		20,000
Water System	96,504	168,024	231,594	32,934	19,455	52,389
Water Reserve	156,776	40,000	155,870	40,906		40,906
Water Construction	120,463	965,346	1,085,809	-		-
Sewer System	41,612	44,982	48,249	38,345	120	38,465
Sewer Reserve	5,000	-	-	5,000		5,000
Refuse System	9,514	48,527	48,683	9,358	3,832	13,190
Agency Type Funds:						
Swimming Pool Construction	54,956	879	-	55,835		55,835
Total	<u>\$ 1,151,722</u>	<u>\$ 2,985,237</u>	<u>\$ 3,356,444</u>	<u>\$ 780,515</u>	<u>\$ 52,552</u>	<u>\$ 833,067</u>
Composition of cash:						
Petty cash						\$ 200
Union State Bank :						
Regular checking						59,537
Agency funds - certificate of deposit						55,835
Certificates of deposit						63,119
Corner Bank:						
NOW account						197,615
Certificates of deposit						<u>456,761</u>
Total						<u>\$ 833,067</u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Summary of Expenditures - Actual and Budget  
Budgeted Funds Only  
For the Year Ended December 31, 2010

Funds	Certified Budget	Adjustments for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Favorable (Unfavorable)
Governmental Type Funds:					
General	\$ 405,939	\$ 185,398	\$ 591,337	\$ 477,218	\$ 114,119
Special Revenue:					
Special Highway	47,591		47,591	18,600	28,991
Library	7,600		7,600	6,556	1,044
City Sales Tax	96,283		96,283	96,283	-
Debt Service:					
Bond and Interest	54,820		54,820	33,960	20,860
Proprietary Type Funds:					
Electric System	963,466		963,466	847,454	116,012
Water System	239,290		239,290	231,594	7,696
Sewer System	80,820		80,820	48,249	32,571
Refuse System	61,912		61,912	48,683	13,229

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual and Budget  
General Fund  
For the Year Ended December 31, 2010

	Budget	Actual	Variance - Over (Under)
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem	\$ 167,373	\$ 164,493	\$ (2,880)
Delinquent	-	707	707
Motor vehicle	33,659	31,172	(2,487)
Licenses, permits and fees	6,000	5,624	(376)
Franchise fees	27,000	22,624	(4,376)
Fines, forfeitures and penalties	30,000	30,314	314
Interest	14,000	11,609	(2,391)
Cemetery	1,000	5,950	4,950
Grants and donations (contains \$524 federal aid)	-	88,535	88,535
SCIP Grant	-	108,208	108,208
Rents	1,440	1,440	-
Sales tax collected - utilities	16,360	19,352	2,992
Other	1,200	1,209	9
Total Cash Receipts	298,032	491,237	193,205
Expenditures:			
General government:			
Personal services	18,500	21,081	(2,581)
Commodities	8,000	7,913	87
Contractual services	46,000	28,848	17,152
Capital outlay	3,500	-	3,500
Taxes remitted - utilities	15,000	18,362	(3,362)
Police department:			-
Personal services	95,000	77,504	17,496
Commodities	8,000	10,485	(2,485)
Contractual services	28,000	11,165	16,835
Vehicle and other expense	-	6,369	(6,369)
Court remittances	5,000	4,616	384
Capital outlay	2,000	4,766	(2,766)

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual and Budget  
General Fund  
For the Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Over (Under)</u>
Expenditures: continued			
Parks:			
Commodities	\$ 9,000	\$ 2,619	\$ 6,381
Capital outlay	60,000	174,005	(114,005)
Street department:			
Contractual services	50,000	-	50,000
Commodities	10,000	2,033	7,967
Other:			
Planning	14,939	4,775	10,164
Civil defense	18,000	369	17,631
Capital outlay	15,000	-	15,000
Housing rehab grant	-	72,308	(72,308)
Transfer to Capital Improvement Fund	-	30,000	(30,000)
Legal General Fund Budget	<u>405,939</u>	<u>477,218</u>	<u>(71,279)</u>
Adjustment for qualifying budget credits	<u>185,398</u>	<u>-</u>	<u>185,398</u>
Total Expenditures	<u>591,337</u>	<u>477,218</u>	<u>114,119</u>
Receipts Over (Under) Expenditures	(107,907)	14,019	121,926
Unencumbered Cash, Beginning	<u>107,907</u>	<u>102,922</u>	<u>(4,985)</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 116,941</u>	<u>\$ 116,941</u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual and Budget  
Special Highway Fund  
For the Year Ended December 31, 2010

	Budget	Actual	Variance - Over (Under)
Cash Receipts:			
State fuel tax	\$ 22,680	\$ 19,901	\$ (2,779)
County fuel tax	3,500	3,386	(114)
Total Cash Receipts	26,180	23,287	(2,893)
Expenditures:			
Commodities	33,327	18,600	14,727
Capital outlay	14,264	-	14,264
Total Expenditures	47,591	18,600	28,991
Receipts Over (Under) Expenditures	(21,411)	4,687	26,098
Unencumbered Cash, Beginning	21,411	17,468	(3,943)
Unencumbered Cash, Ending	\$ -	\$ 22,155	\$ 22,155

The notes to the financial statements are an integral part of this statement.



CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual and Budget  
Library Fund  
For the Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Over (Under)</u>
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem	\$ 5,655	\$ 5,559	\$ (96)
Delinquent	-	24	24
Motor vehicle	1,048	973	(75)
Total Cash Receipts	<u>6,703</u>	<u>6,556</u>	<u>(147)</u>
Expenditures:			
Contractual	<u>7,600</u>	<u>6,556</u>	<u>1,044</u>
Receipts Over (Under) Expenditures	(897)	-	897
Unencumbered Cash, Beginning	<u>897</u>	<u>211</u>	<u>(686)</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 211</u>	<u>\$ 211</u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual  
Equipment Reserve Fund  
For the Year Ended December 31, 2010

	<u>Actual</u>
Expenditures:	
Transfers to:	
Water Construction Fund	<u>\$    11,815</u>
Receipts Over (Under) Expenditures	(11,815)
Unencumbered Cash, Beginning	<u>44,443</u>
Unencumbered Cash, Ending	<u><u>\$    32,628</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual  
Capital Improvement Fund  
For the Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
Transfers from:	
General Fund	<u>\$ 30,000</u>
Receipts Over (Under) Expenditures	30,000
Unencumbered Cash, Beginning	<u>55,900</u>
Unencumbered Cash, Ending	<u><u>\$ 85,900</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual  
Grant Programs Fund  
For the Year Ended December 31, 2010

	<u>Actual</u>
Expenditures:	
Park improvements	<u>\$ 2,188</u>
Receipts Over (Under) Expenditures	(2,188)
Unencumbered Cash, Beginning	<u>2,188</u>
Unencumbered Cash, Ending	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual and Budget  
City Sales Tax Fund  
For the Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Over (Under)</u>
Cash Receipts:			
Local sales tax	\$ 48,282	\$ 92,636	\$ 44,354
Expenditures:			
Capital outlay	48,002	-	48,002
Transfer to:			
Water Construction Fund	-	96,283	(96,283)
Electric System Fund	38,625	-	38,625
Water System Fund	7,242	-	7,242
Sewer System Fund	2,414	-	2,414
Total Expenditures	<u>96,283</u>	<u>96,283</u>	<u>-</u>
Receipts Over (Under) Expenditures	(48,001)	(3,647)	44,354
Unencumbered Cash, Beginning	<u>48,001</u>	<u>48,327</u>	<u>326</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>	<u><u>\$ 44,680</u></u>	<u><u>\$ 44,680</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual  
Payroll Clearing Fund  
For the Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
Payroll deposits	\$ 292,242
Expenditures:	
Payroll costs	<u>292,165</u>
Receipts Over (Under) Expenditures	77
Unencumbered Cash, Beginning	<u>-</u>
Unencumbered Cash, Ending	<u><u>\$ 77</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual and Budget  
Bond and Interest Fund  
For the Year Ended December 31, 2010

	Budget	Actual	Variance - Over (Under)
Cash Receipts:			
Taxes and shared revenue:			
Ad valorem	\$ 21,012	\$ 20,652	\$ (360)
Delinquent	-	142	142
Motor vehicle	4,261	4,097	(164)
Special assessments	11,000	14,882	3,882
Total Cash Receipts	<u>36,273</u>	<u>39,773</u>	<u>3,500</u>
Expenditures:			
Principal	25,000	25,000	-
Interest	9,820	8,960	860
Cash basis reserve	20,000	-	20,000
Total Expenditures	<u>54,820</u>	<u>33,960</u>	<u>20,860</u>
Receipts Over (Under) Expenditures	(18,547)	5,813	24,360
Unencumbered Cash, Beginning	<u>18,547</u>	<u>43,844</u>	<u>25,297</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 49,657</u>	<u>\$ 49,657</u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual and Budget  
Electric System Fund  
For the Year Ended December 31, 2010

	Budget	Actual	Variance - Over (Under)
Cash Receipts:			
Electric sales	\$ 650,000	\$ 716,231	\$ 66,231
New meter set	1,500	1,840	340
Penalties	5,000	11,132	6,132
Connect fees	7,000	8,400	1,400
Other	500	4,145	3,645
Transfer from City Sales Tax Fund	38,000	-	(38,000)
Total Cash Receipts	702,000	741,748	39,748
Expenditures:			
Personal services	151,000	149,632	1,368
Contractual services	650,000	560,281	89,719
Commodities	65,000	12,366	52,634
Capital outlay	90,466	81,049	9,417
Refunds	7,000	4,126	2,874
Transfer to Water Reserve Fund	-	40,000	(40,000)
Total Expenditures	963,466	847,454	116,012
Receipts Over (Under) Expenditures	(261,466)	(105,706)	155,760
Unencumbered Cash, Beginning	261,466	331,594	70,128
Unencumbered Cash, Ending	\$ -	\$ 225,888	\$ 225,888

The notes to the financial statements are an integral part of this statement.



CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual  
Electric Reserve Fund  
For the Year Ended December 31, 2010

	<u>Actual</u>
Unencumbered Cash, Beginning	<u>\$ 20,000</u>
Unencumbered Cash, Ending	<u><u>\$ 20,000</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual and Budget  
Water System Fund  
For the Year Ended December 31, 2010

	Budget	Actual	Variance - Over (Under)
Cash Receipts:			
Water sales	\$ 150,000	\$ 163,400	\$ 13,400
New meter set	800	810	10
Utility Meter Deposits	3,000	3,240	240
Miscellaneous	-	574	574
Transfer from City Sales Tax Fund	7,200	-	(7,200)
Total Cash Receipts	161,000	168,024	7,024
Expenditures:			
Personal services	75,000	68,020	6,980
Contractual services	30,500	93,723	(63,223)
Commodities	25,000	14,430	10,570
Capital outlay	24,917	-	24,917
Debt service principal	39,988	27,008	12,980
Debt service interest	41,385	26,883	14,502
Refunds	2,500	1,530	970
Total Expenditures	239,290	231,594	7,696
Receipts Over (Under) Expenditures	(78,290)	(63,570)	14,720
Unencumbered Cash, Beginning	78,290	96,504	18,214
Unencumbered Cash, Ending	\$ -	\$ 32,934	\$ 32,934

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual  
Water Reserve Fund  
For the Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
Transfer from:	
Electric System Fund	\$ 40,000
Expenditures:	
Transfer to Water Construction Fund	<u>155,870</u>
Receipts Over (Under) Expenditures	(115,870)
Unencumbered Cash, Beginning	<u>156,776</u>
Unencumbered Cash, Ending	<u><u>\$ 40,906</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual  
Water Construction Fund  
For the Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
CDBG grant - federal aid	\$ 65,653
Debt proceeds, net	635,725
Transfer from:	
Equipment Reserve Fund	11,815
Local Sales Tax Fund	96,283
Water Reserve Fund	155,870
Total Cash Receipts	<u>965,346</u>
Expenditures:	
Capital outlay	<u>1,085,809</u>
Receipts Over (Under) Expenditures	(120,463)
Unencumbered Cash, Beginning	<u>120,463</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual and Budget  
Sewer System Fund  
For the Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Over (Under)</u>
Cash Receipts:			
Charges for service	\$ 45,000	\$ 44,982	\$ (18)
Transfer from City Sales Tax Fund	2,414	-	(2,414)
Total Cash Receipts	<u>47,414</u>	<u>44,982</u>	<u>(2,432)</u>
Expenditures:			
Personal services	11,000	8,860	2,140
Contractual services	20,000	10,925	9,075
Commodities	10,000	1,830	8,170
Capital outlay	10,831	-	10,831
Debt service principal	21,560	18,814	2,746
Debt service interest	7,429	7,820	(391)
Total Expenditures	<u>80,820</u>	<u>48,249</u>	<u>32,571</u>
Receipts Over (Under) Expenditures	(33,406)	(3,267)	30,139
Unencumbered Cash, Beginning	<u>33,406</u>	<u>41,612</u>	<u>8,206</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 38,345</u>	<u>\$ 38,345</u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual  
Sewer Reserve Fund  
For the Year Ended December 31, 2010

	<u>Actual</u>
Unencumbered Cash, Beginning	<u>\$ 5,000</u>
Unencumbered Cash, Ending	<u><u>\$ 5,000</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Expenditures - Actual and Budget  
Refuse System Fund  
For the Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Over (Under)</u>
Cash Receipts:			
Charges for service	\$ 49,000	\$ 48,527	\$ (473)
Expenditures:			
Contractual services	<u>61,912</u>	<u>48,683</u>	<u>13,229</u>
Receipts Over (Under) Expenditures	(12,912)	(156)	12,756
Unencumbered Cash, Beginning	<u>12,912</u>	<u>9,514</u>	<u>(3,398)</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 9,358</u>	<u>\$ 9,358</u>

The notes to the financial statements are an integral part of this statement.

CITY OF UDALL, KANSAS  
Statement of Cash Receipts and Disbursements  
Agency Funds  
For the Year Ended December 31, 2010

Fund	Beginning Cash Balance	Cash Receipts	Cash Disbursements	Ending Cash Balance
Swimming Pool Construction Fund	\$ 54,956	\$ 879	\$ -	\$ 55,835

The notes to the financial statements are an integral part of this statement.



CITY OF UDALL, KANSAS  
Notes to Financial Statements  
December 31, 2010

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of the City of Udall, Kansas (the City) is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management, who is responsible for their integrity and objectivity. These accounting policies conform to a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and, with exception of year-end salary accruals as detailed in Note 13, have been consistently applied in the preparation of the financial statements.

Reporting Entity

The City of Udall is a municipal corporation governed by an elected five-member council. These financial statements present the City of Udall (the primary government). The City has no component units.

Basis of Presentation

The financial activities of the City are recorded and presented on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City of Udall, Kansas for the year 2010:

Governmental Funds:

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

Debt Service Fund - to account for the accumulation of resources for, and the payment of, interest and principal on long-term debt.

CITY OF UDALL, KANSAS  
Notes to Financial Statements  
December 31, 2010

1. Summary of Significant Accounting Policies (continued)

Proprietary Funds:

Enterprise Funds - to account for operations that are financed and operated in a manner similar to a private business enterprise, where a fee is charged to external users for goods or services.

Agency Funds:

Trust Funds - to account for assets held by a governmental unit in a trustee capacity for special purposes.

Basis of Accounting

The *statutory basis of accounting*, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, if any. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund and an expenditure is recorded in the fund from which the transfer is made.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to report on the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue, principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, temporary notes and compensated absences are not presented in the financial statements.

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2. Budget and Tax Cycle

Kansas Statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
3. Public hearing on or before August 15<sup>th</sup>, but at least 10 days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the City for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital project funds and certain special revenue funds. These "nonbudgeted" funds include Equipment Reserve, Capital Improvement, Grant Programs, Payroll Clearing, Electric Reserve, Water Reserve, Water Construction, and Sewer Reserve funds.

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by regulations, other statutes, or by the use of internal spending limits established by the governing body.

### 3. Defined Benefit Pension Plan

#### Plan Description

The City contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

#### Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% (Tier 1) and 6% (Tier 2) of covered salary. The City (employer) collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statutes for calendar year 2010 is 7.14%. The City's employer contributions to KPERS for the years ending December 31, 2010, 2009 and 2008 were \$12,577, \$10,965, and \$10,860, respectively, equal to the required contributions for each year.

### 4. Special Assessments

Projects, financed in part by special assessments, are financed through general obligation bonds of the City and are retired primarily from the Debt Service Fund. Special assessments paid prior to the issuance of the bonds are recorded as revenue in the appropriate project account. Special assessments received after the issuance of bonds are recorded as revenue in the Debt Service Fund.

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5. Compensated Absences

Vacation

All full time employees of the City shall be entitled to vacation as follows:

From date of employment to December 31 of that year, considered the first calendar year, one week (5 working days) will be earned. After the second calendar year, two weeks (10 working days) will be earned. After ten calendar years, three weeks (15 working days) will be earned. Annual vacation shall be paid at the employee's regular rate during each leave period. Half of the employee's accrued vacation may be carried over from one year to the next. All requests for vacation shall be submitted to the appropriate supervisor. The estimated liability at December 31, 2010, assuming all employees with a carryover balance were to terminate employment, would be \$1,694.

Sick Leave

All full-time employees of the City shall be entitled to five (5) days of sick leave per calendar year or 1.54 hours per payroll period. Sick leave shall be paid at the employee's regular rate of pay during such sick leave. The term sick leave shall also include any necessary absence from duty caused by injury sustained on the job, but does not include absence from work after the employee becomes eligible for worker's compensation benefits. Sick leave may be accumulated from year to year but no employee shall be credited with more than ten (10) days of accumulated sick leave. The Council may require satisfactory evidence of any illness or absence from duty at the time any payroll is approved.

Changes in the employee handbook, including reimbursement for sick leave accrued over eighty (80) hours, resulted in a reduction of accumulated sick leave. This reimbursement is included in the first pay check of the following year. The cost of accumulated sick leave is recorded in the financial statements at the time payments are made to employees. The estimated liability at December 31, 2010, assuming all employees with accumulated sick leave were to terminate employment, would be \$4,728.

6. Deposits

At year-end the carrying amounts of the City's deposits, including certificates of deposit, were \$833,067. The bank statement balances were \$904,600. The differences between the carrying amounts and the bank balances are outstanding deposits and checks. Of the bank balances, \$500,000 was covered by FDIC insurance and \$854,600 was collateralized by pledged securities held under joint custody receipts issued by third party banks in the City's name. The third party banks holding the pledged securities are independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the City, the pledging bank and the independent third-party bank holding the pledged securities.

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7. Compliance with Kansas Statutes

Management is aware of no statutory violations for the year ended December 31, 2010.

8. Interfund Transfers

Operating and residual equity transfers were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>
Operating transfers:		
General Fund	Capital Improvement Fund	\$ 30,000
Electric System Fund	Water Reserve Fund	40,000
City Sales Tax Fund	Water Construction Fund	96,283
Water Reserve Fund	Water Construction Fund	115,870
Equipment Reserve Fund	Water Construction Fund	11,815

9. Risk Management

Risk management is accomplished primarily through the purchase of commercial insurance coverage.

10. Concentrations

The City's electric system buys all of its electricity from the Kansas Power Pool.

11. Operating Leases

The City receives \$120 per month for a building lease with a hair salon.

12. Capital Projects

The City had one active project during the year ending December 31, 2010. The Water Supply Improvement project has an estimated cost of \$2,015,000. The financing sources and construction expenditures are being accounted for in the Water Construction Fund.

The project is to be financed with the following sources of funds:

KDHE Loan	\$1,365,000
CDBG Grant	400,000
City Funds	<u>250,000</u>
Total	<u>\$2,015,000</u>

During 2010 the proceeds for funding were KDHE Loan proceeds, \$636,263 and the CDBG Grant proceeds, \$65,653. The expenditures on this project totaled \$1,989,767.

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13. Year-end Salary Accrual

The City accrued salaries as an encumbrance in the amount of \$15,979 for 2009. This reporting is inconsistent with prior years reporting; however, it is acceptable to accrue salaries. This does not violate budgetary or cash basis statutes but will result in a higher stated payroll for that year comparable to this year.

14. Subsequent Events

The City adopted FASB ASC 855, *Subsequent Events*, effective for financial periods ending after June 15, 2009. The objective of FASB ASC 855 is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. Subsequent events have been evaluated through February 28, 2011, which is the date the financial statements were available to be issued. Events requiring disclosure were identified and disclosed.

15. Long-Term Debt

Changes in long-term liabilities for the City for the year ended December 31, 2010 along with current maturities of long-term debt and interest for the next five years and in five-year increments through maturity are as follows:

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Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bond:										
Internal improvements - Series 2001	4.1% to 5.0%	9/15/2001	300,000	9/1/2016	\$ 190,000	\$ -	\$ 25,000	\$ -	\$ 165,000	\$ 8,960
Revolving Loan Program:										
KWPCRF Project No. C20-1325-01	3.26%	9/1/2000	400,252	9/1/2020	244,548	-	18,814	-	225,734	7,820
KDHE Loan Project No 2490	3.63%	11/29/2007	1,365,000	2/1/2030	728,737	636,263	27,008	-	1,337,992	26,883
Total Revolving Loans					973,285	636,263	45,822	-	1,563,726	34,703
Total Contractual Indebtedness					1,163,285	636,263	70,822	-	1,728,726	43,663
Compensated Absences	N/A	N/A	N/A	N/A	8,325	-	-	(1,903)	6,422	-
Total Long-Term Debt					<u>\$ 1,171,610</u>	<u>\$ 636,263</u>	<u>\$ 70,822</u>	<u>\$ (1,903)</u>	<u>\$ 1,735,148</u>	<u>\$ 43,663</u>
Maturities										
	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2030	Total	
Principal:										
General obligation bond	\$ 25,000	\$ 25,000	\$ 25,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ -	\$ -	\$ 165,000	
Revolving loans program	67,633	70,038	72,528	75,106	77,777	432,394	371,595	396,655	1,563,726	
Total Principal	<u>\$ 92,633</u>	<u>\$ 95,038</u>	<u>\$ 97,528</u>	<u>\$ 105,106</u>	<u>\$ 107,777</u>	<u>\$ 462,394</u>	<u>\$ 371,595</u>	<u>\$ 396,655</u>	<u>\$ 1,728,726</u>	
Interest:										
General obligation bond	\$ 7,860	\$ 6,735	\$ 5,585	\$ 4,410	\$ 2,970	\$ 1,500	\$ -	\$ -	\$ 29,060	
Revolving loans program	55,338	52,933	50,443	47,865	45,081	182,574	110,088	36,859	581,181	
Total Interest	<u>\$ 63,198</u>	<u>\$ 59,668</u>	<u>\$ 56,028</u>	<u>\$ 52,275</u>	<u>\$ 48,051</u>	<u>\$ 184,074</u>	<u>\$ 110,088</u>	<u>\$ 36,859</u>	<u>\$ 610,241</u>	